

**A summary of questions from the Senate Advisory Commission
on Cost Control in State Government**

October 21, 2010

- 1. The Project previously indicated that once FI\$Cal is fully implemented it will track program dollars and provide the details on the website for the public to view. Will the solution be similar to the method that the State of Missouri utilized which details their spending for each agency?**

Greater transparency is an important objective and a key benefit of an Enterprise Resource Planning (ERP) solution. Solution requirements supporting this functionality have been included in the FI\$Cal Request for Proposal (RFP). The Project is currently conducting a Fit Gap process with three contractors designed to help them better understand the state's business processes and legacy information systems. The specific approach to track and display program dollars will be decided by the state during the system design phase, which will take place after the Stage 2 contract is awarded to one of the three contractors.

The Project has not conducted detailed design sessions or made decisions with the Partner Agencies about the tracking and publishing of program dollars on public websites. However, our partners support increased transparency and access to California's financial information by California constituents. Specific determinations as to what program or expenditures details may be publicly published by FI\$Cal have not yet been discussed or decided by the FI\$Cal Steering Committee.

- 2. Will FI\$Cal track the dollar expenditure on a monthly basis compared to the actual budget for the programs listed? What other information will be available to the public?**

Greater transparency is an important objective and a key benefit of an ERP solution and requirements supporting this functionality has been included in the FI\$Cal RFP. The specific approach to track and display program dollars will be decided during the design phase which will take place after a vendor is selected.

Near real time or real time tracking of actual expenditures to the budget is commonly achieved through the implementation of financial management ERPs. However, it is important to note that such information only provides "point in time" financial information. Information gathered during the year-end closing process will still provide the most accurate account of actual expenditures to budget.

- 3. Does the Department of Finance currently track the budget appropriations compared to the actual expenditures on a daily, weekly, and monthly basis? How long does it take for actual expenditures to be reported against the budgeted dollars?**

Due to the difficulty of gathering data from multiple systems and departments, the Department of Finance (Finance) does not generally track appropriations to actual expenditures except during the annual budget development process (i.e. not daily, weekly, or monthly) for most

appropriations. However, there are often exceptions for certain sensitive appropriations when Finance may request more frequent tracking. Tracking information also may be requested through statewide “budget drills” designed to collect specific information and/or answer specific questions (ex. a drill to request expenditures to-date for responses to a declared emergency).

In the instances when Finance is requesting expenditure information outside of the annual budget process, mitigation strategies such as manual compilation of the information to reduce/avoid lag time are required.

4. The Project previously indicated that every department and agency within the Executive Branch will be required to use FI\$Cal, with the exception of Caltrans and CDCR (because they are currently in the process of implementing their own ERP financial systems). What are the expectations and limitations placed upon Caltrans and CDCR and during the FI\$Cal implementation?

California Department of Transportation (Caltrans), California Department of Corrections and Rehabilitation (CDCR) and other state departments have implemented, or are in the process of implementing, ERP systems with varying functionality.

The current scope of the FI\$Cal Project does not include departments that have implemented, or are in the process of implementing a financial management ERP system¹. However, as these departments’ ERP systems require upgrades or the departments desire expanded functionality, they will be required to move to FI\$Cal, and as such are referred to as “deferred departments.” Interfaces will be developed for these departments to either exchange data or information through the interface, or to enter information into the statewide ERP system as needed by the Partner Agencies.

There are also certain departments within the state that have special statutory provisions that allow them to use systems other than FI\$Cal for their financial management. These departments include the:

- University of California
- Hastings College of Law

However, these departments must exchange data with FI\$Cal, at a minimum to provide financial information for budgeting and reporting purposes.

There are certain other departments with similar statutory or constitutional provisions as the departments noted above, such as:

- Bureau of State Audits
- California State University
- State Compensation Insurance Fund
- California Public Employees’ Retirement System
- California State Teachers’ Retirement System
- Legislature
- Legislative Counsel Bureau/Legislative Data Center
- Judicial Branch

¹ RFP DOF #8860-30

These departments will exchange information with FI\$Cal for budget and financial reporting and to provide information for warrants to be issued. These departments may implement FI\$Cal at a later time. In addition, there is a moratorium on other departments implementing new ERP systems that duplicate functionality of FI\$Cal.

CDCR's Business Information System (BIS) is an implementation of the SAP suite of enterprise business management software². BIS is an enterprise-wide system that includes financial, supply chain, and human resources management.

Caltrans is working with CGI on the Integrated Financial Management System/Enterprise Resource Planning Financial Infrastructure (E-FIS) project³. E-FIS includes the following modules: Infrastructure Architecture, General Accounting, Purchase Requisition, Procurement, Inventory, Grant Accounting, Property Management, and Budget Preparation.

The Project approach of requiring these systems to interface or exchange data with FI\$Cal, or eventually become part of FI\$Cal at the time of major upgrade, will ensure data consistency and integrity between these systems.

5. The Project previously indicated that the performance metrics will be decided upon by the end of this year. Please provide us with this information as soon as it is available.

No performance metrics are available at this time. The Project has been working on a contract for benchmarking services that has been delayed based upon the Governor's recent directive. We remain committed to providing this information as soon as it is available.

6. Have you contracted with an entity to provide benchmarks in terms of the costs to the state for operating its current financial system as opposed to an estimate of what the state will save as a result of implementing FI\$Cal? Will this be translated into the number of employees and dollars that will be reduced by agency and department? Will you be able to report on the return on investment for FI\$Cal? What entity will have oversight to monitor this?

As soon as FI\$Cal is able to enter into a new contract for benchmarking services, we seek to capture the current cost of doing business as well as target costs based upon the experiences of other public sector ERP implementations. The benchmarking contractor will provide current and proposed costs, but will not provide specific recommendations regarding departmental positions. It is the Project's intent to use the same benchmarking methodology after each implementation wave stabilizes to monitor the projected costs against the actual costs. The data collected during the initial benchmark will be included in the Project's Special Project Report (SPR 4). The Project currently is overseen by Bureau of State Audits (BSA), Independent Verification and Validation (IV&V), and Independent Project Oversight Consultant (IPOC).

² CDCR website: <http://www.cdcr.ca.gov/BIS>

³ Caltrans website: <http://www.dot.ca.gov/ifms/index.htm>

7. What procedures and policies will be in place to ensure that the FI\$Cal Project will provide a return on the state's investment? Will the actual cost savings be realized in the state's budget?

California Government Code Section 15849.22 (b) (1) states, "All state departments and agencies shall use the FISCAL system. The FISCAL system shall replace any existing central or departmental systems duplicative of the functionality of the FISCAL system."

Budget Letter 08-05 instructs departments and agencies that an IT project moratorium is in effect for functionality duplicating FI\$Cal⁴. The Budget Letter lists the specific functional areas impacted by the moratorium. "The purpose of the moratorium is to limit the number of duplicative systems being developed by state agencies in preparation for the implementation of a single statewide administrative system. Additionally, this moratorium will provide better control of overall state business systems costs, limit the number of interfaces that must be developed and maintained, and maximize the use of enterprise-wide system technology."

The Budget Letter includes specific exempted entities; however, exempted entities "will be required to provide information to FI\$Cal for specified purposes (e.g., budget development, payroll and employee expenditures, bond management activities, and general ledger information used to prepare the state's annual financial reports)." The Budget Letter also outlines an exemption request process with specific criteria for departments with critical business needs.

Based upon estimates in SPR 2 and SPR 3 the state expects that the most significant cost savings will come from cost avoidance directly related to the project moratorium in Budget Letter 08-05. This cost savings is being monitored and enforced by the OCIO with support from the Project.

8. The Project previously indicated that the full statewide implementation for FI\$Cal will be completed in 2016, and that Wave 1 would be on line in year 2013-14. Does Wave 1 include only the DOF, DGS, Controller, and Treasurer? Is this date still on target?

The Project recognizes that significant effort was expended developing the current list of wave and stage departments, including chartering the Customer Impact Committee (CIC) from those departments. The systems integration Request for Proposal (RFP) issued by the Project on April 21, 2010, states that "bidders are encouraged to both critique the currently envisioned approach and to offer an alternative strategy if they think that alternative would enhance the success of the implementation effort." The Project asked the bidders to "provide a detailed implementation approach for fully implementing all functionality in all required departments." Further, the RFP requests that the bidder's recommendation includes "the order that all departments and functionality will be implemented." Therefore, the final list of departments and functions to be included in Wave 1, as well as each subsequent wave, will not be finalized until a contractor is selected.

In the interim, the Project has been working with its proposed Wave 1 departments. The ten Wave 1 departments, as adopted by the FI\$Cal Steering Committee on November 18, 2009 are (in alphabetical order):

- Agricultural Labor Relations Board
- Board of Equalization

⁴ http://www.dof.ca.gov/budgeting/budget_letters/documents/BL08-05.pdf

- California Arts Council (Summer School for the Arts)
- California Postsecondary Education Commission
- Department of Aging (Commission on Aging)
- Department of Alcoholic Beverage Control (Alcoholic Beverage Control Appeals Board)
- Department of Fair Employment and Housing
- Department of Justice
- Office of Environmental Health Hazard Assessment
- San Francisco Bay Conservation and Development Commission

The primary reason for selecting the Wave 1 departments listed above stems from the Project's approach to start with core accounting. As such, the Partner Agencies will be included in Wave 1, and each subsequent wave, to the extent that their control functions support the functionality implemented in each wave.

The functional scope is core accounting, which includes general ledger (financial statements), accounts payable, accounts receivable, and certain parts of cash management, purchasing, and budget administration. This could include requisitions and information on purchase orders and contracts (face sheet information only), encumbrance accounting, three-way matching for goods received, cost allocation (including simple labor distribution, but not time reporting), support for department revolving funds, and warrant/check reconciliation.

The Project is still targeting implementation of Wave 1 during FY 2013-14; however, the final schedule will be presented in SPR 4 once a contractor is selected. It should be noted that the Governor's recent directive on hiring and contracting is having a serious negative impact on the Project's ability to complete the Fit Gap and procurement according to the Project's schedule and risks future timelines.

9. It is our understanding that the Project indicated that it will be looking into activity based accounting for a possible next step for system implementation?

The FI\$CAL RFP includes requirements for cost allocation and labor distribution functionality.

10. What is the status of the procurement module? At one time its implementation schedule was the same as the financial module. What is the new target on line date?

The Project asked the bidders to "provide a detailed implementation approach for fully implementing all functionality in all required departments." Further, the RFP requests that the bidder's recommendation includes "the order that all departments and functionality will be implemented." Until proposals are received, evaluated, and a winning contractor is selected specific dates for implementation of functionality cannot be predicted.

11. Is the new statewide system going to join DGS in utilizing the United Nations Standard Products and Service Codes (UNSPSC) for the procurement module? If not, then why and what will be utilized in its place?

Yes, the new statewide system will utilize the UNSPSC.

12. The BSA released its audit on the DGS Strategic Sourcing and Small Business. Will the Auditors recommendation that the state should be utilizing more Strategic Sourcing be incorporated in the FI\$Cal system?

Strategic Sourcing is a program operated by the Department of General Services. It is not envisioned as a separate and specific functionality that will be included in FI\$Cal. However, FI\$Cal will support Strategic Sourcing by providing better and more detailed information on state spending so DGS can use the state's buying power to realize significant cost reductions. Currently, it is difficult for state buyers to identify more goods or services for which strategic sourcing can be applied because this requires that the state possess detailed information on the demand and utilization of these items. With FI\$Cal, however, the state will be able to determine with greater accuracy the total amount of its purchases, what it is buying, how much of a commodity is being bought, who is buying it, and when it is being bought. With an enhanced ability to capture statewide procurement and contracting information through FI\$Cal, the state will be able to expand strategic sourcing to other categories of state purchasing.

13. Are there any plans to utilize the asset module?

While the FI\$CAL RFP includes requirements to track and report on assets, each vendor's Commercial-off-the-Shelf (COTS) solution is unique and "packages" their modules differently. We will not know how this functionality will be handled until a final vendor is selected.

14. The Project previously indicated that the Senate and Assembly agreed to fully fund FI\$Cal in the current budget that's before the Legislature. For purposes of future year funding, are you preparing for the possibility of not being fully funded? If so, what is being done to develop other possible funding sources? For example, in the past, some state IT projects were funded by a vendor and the state reimbursed the vendor when the project was completed.

Since Project inception, the plan was to provide funding through short term financing with Bond Anticipation Notes and long-term financing with Certificates of Participation. Due to the current economic climate, the Project is looking into other options. At this time the Project continues to request General Fund assistance and Special Funds. For 2010-11 the Project has been included in the Statewide Cost Allocation Plan (SWCAP). This will offset a portion of General Fund funding.

The Project is working with the Infrastructure Bank (I-Bank) as one option for future funding. In addition, information is being gathered about different types of financing that have been successfully used by other public entities to finance ERP projects. Information on vendor financing options is also being obtained for consideration.

The Project is also considering different chargeback models. These models could be implemented as departments are deployed. Per Government Code the chargeback rates are to include development costs of the system, debt service, and ongoing maintenance and operations.

15. What is the total cost of FI\$Cal since its inception? Please indicate by fiscal years.

FY 2005-2006	\$ 866,256
FY 2006-2007	5,019,665
FY 2007-2008	6,237,000
FY 2008-2009	5,783,441
FY 2009-2010	<u>12,342,220</u>
Total	\$30,248,582

16. Please provide us with a list of the other states and localities that you have looked at in terms of duplicating their financial management systems? Of these, are there any states making plans to develop unit pricing and functional coding to track the efficiency of a business function?

The FI\$Cal Project has looked extensively to other states and localities to benefit from their experience with ERP system implementations. These efforts include the following:

- a. In October 2005, Project staff visited the Commonwealth of Pennsylvania to benefit from the successful implementation of their statewide ERP system "Imagine PA."⁵
- b. Finance participated in several conferences sponsored by the National Association of State Budget Officers (NASBO), where transitions to ERP software-based systems were highlighted and discussed. These conferences provided numerous opportunities to network and share experiences with many of the other states that have implemented or were in the process of implementing ERP systems. States included California, Nebraska, North Carolina and Wisconsin.
- c. The Project also looked to experiences of other states such as New York, and private entities such as AT&T Worldwide. We also benefitted from lessons learned from state departments that successfully implemented and are using ERP systems to support their administrative functions. These include: The Department of Water Resources, Department of Motor Vehicles, Department of General Services, and the Administrative Office of the Courts. These projects demonstrated that California state departments can successfully develop, implement, and operate COTS ERP software for administrative operations including financial accounting, human resources, procurement/ordering, asset management, and inventory management/facilities management.
- d. FI\$Cal, along with the California CIO, and Gartner Consulting, hosted the first of its kind, "1st Annual Government-to-Government Enterprise Resources Planning Forum", in Sacramento, California on May 12-13, 2008. Including California, 13 states and 6 local entities were represented at the Forum. Over 200 government employees nationwide registered at the Forum. The two-day forum featured an opening address from California's State Chief Information Officer, Teri Takai. Ms. Takai stated that, "Enterprise systems have the power to renew the public's trust in government through increased efficiency and transparency," and this forum provided "a terrific opportunity to share information and best practices as we implement the next generation of technology." The Forum focused on approaches to modernizing state government through major integrated computer systems, with emphasis on three ERP topics: 1) Compelling Business Cases for ERP, 2) Procurement & Implementation, and 3) Post Implementation, Maintenance and Support.

⁵ FI\$Cal Information Technology Procurement Plan (ITPP) Project #8860-30, Appendix C--Market Research efforts

The Business Case

Sponsors provided a high-level overview addressing the components of a compelling ERP business case. The presentation answered key questions such as "How to develop a compelling business case" and "How to use a compelling business case throughout the execution of the ERP project". Following the overview, attendees dispersed into three panel discussions on Developing ERP Business Cases, Funding & Financing ERP Investments, and How to Negotiate to Win Project Approval.

The Procurement & Implementation

Sponsors provided an overview addressing ERP procurement best practices, setting realistic expectations for the implementation, and key factors of organizational readiness for implementation of large ERP initiatives. Following the overview, attendees dispersed into three panel discussions on Deployment Approach, Pre-Implementation Readiness, and Death by Uniqueness.

Post Implementation, Maintenance and Support

The final overview by sponsors addressed answers to key questions such as "What are best practices in transitioning from the ERP project to ongoing maintenance and support?" and "Is there a best practice lifecycle for managing the ongoing investment in your ERP solution?" The overview was followed by two panel discussions on Building the Support Infrastructure and Maintain and Maximize Investments.

Panel members participating in the Forum were officials from various state governments and California local government. Panel members provided lessons learned from their experience with ERP projects.

State and local governments represented at the 1st Annual Government-to-Government ERP Forum included:

Other States

Georgia, Oregon, West Virginia, Delaware, Idaho, Colorado, Oklahoma, Pennsylvania, Alabama, Washington, and Florida

Local Governments

Los Angeles, County of Marin, City of Sacramento, Santa Clara County, Sacramento County, and Sacramento Municipal Utilities District (SMUD)

California Agencies

- Department of Finance
- Department of Corrections and Rehabilitation
- Department of Personnel Administration
- Department of Parks and Recreation
- Department of Transportation
- Department of Education
- Department of Developmental Services
- Board of Equalization
- Secretary of State
- Treasurer's Office
- Franchise Tax Board
- California Integrated Waste Management Board
- State Teachers' Retirement System

- Department of Justice
- Department of General Services
- Department of Community Services and Development
- Department of Social Services
- Employment Development Department
- Department of Consumer Affairs
- Water Resources Control Board
- State Controller's Office
- Little Hoover Commission
- Office of Systems Integration
- Office of the Chief Information Officer
- Office of Information Security and Privacy Protection

The Forum provided attendees a unique avenue to share valuable information and insight about ERP implementation directly from state and local governments that had implemented or were planning to implement ERP systems. Attendees learned first-hand from other states and governments who did or were doing Enterprise Resources Planning projects. The collaborative forum provides a central “one-stop shop” to seek and share information about ERP implementation. The event was crafted to meet the information need of budget officers, controllers, procurement officials, treasury officials, chief information officers, and auditors.

- e. As the state moves forward with the development of a statewide enterprise financial management and information system, the need for leadership and governance related to statewide (enterprise) level issues is reinforced⁶. The FI\$Cal Project has access to a statewide governance structure encompassed in the Enterprise Leadership Council (ELC). The ELC, established through a charter of the members, is the forum and structure for stakeholders of the FI\$Cal Project, as well as other enterprise projects in development by other state agencies.

The ELC is co-sponsored by the State Chief Information Officer (CIO), has primary responsibility for overall ELC management, support and coordination. The ELC consists of 19 state departments and agencies. The members are as follows:

- State Chief Information Officer
- Director, Department of Finance
- Agency Secretary, Business, Transportation and Housing
- Agency Secretary, California Environmental Protection Agency
- Agency Secretary, Corrections and Rehabilitation
- Agency Secretary, Education
- Agency Secretary, Food and Agriculture
- Agency Secretary, Health and Human Services
- Agency Secretary, Labor and Workforce Development
- Agency Secretary, Resources
- Agency Secretary, State and Consumer Services
- Agency Secretary, Veteran's Affairs
- Director, Department of Personnel Administration
- State Controller
- State Treasurer
- Executive Director, Board of Equalization
- Military Department

⁶ FI\$Cal SPR, Project #8860-30, dated November 9, 2007

- Office of Emergency Services
 - Office of Homeland Security
- f. The Project has also contracted with various consultants, such as Informatix, Gartner, Inc., Grant Thornton LLP and Cambria Solutions to gain valuable insight and knowledge about ERP in numerous areas, including: as-is process and system documentation, project organization and governance, business objectives and system requirements, project approach (phasing, roll-out, etc.), functionality, sourcing strategy, enterprise standards, project staffing, project schedule, implementation, etc.

In response to the second part of the question, the Project has not undertaken a study of whether other states are making plans to develop unit pricing and functional coding to track the efficiency of a business function.